

## *Idaho Economic Forecast*

The following tables and text are taken from the  
January 2000 *Idaho Economic Forecast*,  
a publication produced by the  
Division of Financial Management.

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## EXECUTIVE SUMMARY

The outlook for the state's economy has changed little since the October 1999 *Idaho Economic Forecast* was released. At that time it was projected that after booming for several years, the Gem State's economic growth would take a breather and expand slower over the forecast period. It is important to note that while growth is forecast to slow, it is not expected to stall or decline. As such, the state's growth streak that began in 1987 should continue over the foreseeable future. It is anticipated that Idaho nonfarm employment growth will drift down to 2.1% in both 2000 and 2001 then rise to 2.4% in 2002, and 2.5% in 2003. While this is low compared to recent years' increases, it is still faster than its national counterpart. National growth is not expected to increase by more than 2.0% in any year of this forecast. Idaho nominal personal income should chug along at a 5.5% to 6.0% annual pace over the forecast horizon. As is the case with employment, Idaho nominal personal income should grow faster than national nominal personal income. Adjusted for inflation, Idaho personal income is anticipated to rise 4.6% in 1999, 3.8% in 2000, 3.6% in 2001, 3.3% in 2002, and 3.4% in 2003. National personal income is expected to advance 4.1% in 1999, 3.4% in 2000, 3.2% in 2001, 2.4% in 2002, and 2.5% in 2003.

The U.S. economy continued to grow as it reached the end of the 2<sup>nd</sup> millenium. Already it's the longest peacetime expansion, and in February 2000 it will be the longest expansion on record. Despite its long run, the economy shows few signs of slowing down. In fact, some signs show it is actually speeding up. After growing at a 1.9% annual rate in the second quarter of 1999, real GDP posted a 5.7% showing in the following quarter. Early estimates suggest it grew about 5.0% in the fourth quarter of last year. Overall, real GDP is believed to have grown 3.9% in 1999, well above almost every estimate of its potential. Another measure that has outperformed almost every expectation has been employment. Last year the U.S. civilian unemployment rate averaged 4.2%, which is about one and a half percentage points below a reasonable estimate of full employment. Given the tight labor market, one would expect to see inflationary pressures surfacing. However, inflation has been relatively tame. In fact, employee compensation growth actually slowed from 3.5% in 1998 to 3.1% in 1999. Energy prices did rise significantly in 1999, but this jump was from depressed levels. Even with the surge in energy prices, consumer inflation was just 2.2% last year. As it prepares to break the expansion record, the economy is more aptly described as hitting full stride versus being on its last leg.

# IDAHO ECONOMIC FORECAST

## EXECUTIVE SUMMARY

JANUARY 2000

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>GDP (BILLIONS)</b>										
Current \$	7,054	7,401	7,813	8,301	8,760	9,228	9,671	10,159	10,649	11,213
% Ch	7.2%	4.9%	5.6%	6.2%	5.5%	5.3%	4.8%	5.0%	4.8%	5.3%
1992 Chain-Weighted	6,729	6,912	7,165	7,488	7,810	8,113	8,386	8,676	8,939	9,226
% Ch	5.0%	2.7%	3.7%	4.5%	4.3%	3.9%	3.4%	3.5%	3.0%	3.2%
<b>PERSONAL INCOME - CURR \$</b>										
Idaho (Millions)	20,628	22,062	23,418	24,651	25,901	27,524	29,056	30,615	32,329	34,254
% Ch	5.9%	7.0%	6.1%	5.3%	5.1%	6.3%	5.6%	5.4%	5.6%	6.0%
Idaho Nonfarm (Millions)	19,979	21,371	22,644	23,958	25,254	26,783	28,296	29,836	31,530	33,432
% Ch	8.9%	7.0%	6.0%	5.8%	5.4%	6.1%	5.6%	5.4%	5.7%	6.0%
U.S. (Billions)	5,888	6,201	6,547	6,951	7,359	7,783	8,188	8,592	8,992	9,442
% Ch	6.8%	5.3%	5.6%	6.2%	5.9%	5.8%	5.2%	4.9%	4.6%	5.0%
<b>PERSONAL INCOME - 1992 \$</b>										
Idaho (Millions)	19,674	20,582	21,412	22,170	23,075	24,147	25,059	25,954	26,808	27,728
% Ch	3.7%	4.6%	4.0%	3.5%	4.1%	4.6%	3.8%	3.6%	3.3%	3.4%
Idaho Nonfarm (Millions)	19,054	19,937	20,705	21,547	22,499	23,496	24,404	25,294	26,145	27,062
% Ch	6.7%	4.6%	3.8%	4.1%	4.4%	4.4%	3.9%	3.6%	3.4%	3.5%
U.S. (Billions)	5,616	5,785	5,986	6,251	6,556	6,827	7,061	7,284	7,456	7,643
% Ch	4.6%	3.0%	3.5%	4.4%	4.9%	4.1%	3.4%	3.2%	2.4%	2.5%
<b>HOUSING STARTS</b>										
Idaho	12,768	9,362	9,222	8,858	10,124	10,128	10,020	10,137	10,009	10,153
% Ch	11.5%	-26.7%	-1.5%	-3.9%	14.3%	0.0%	-1.1%	1.2%	-1.3%	1.4%
U.S. (Millions)	1.446	1.361	1.469	1.476	1.623	1.665	1.573	1.585	1.556	1.567
% Ch	12.0%	-5.9%	7.9%	0.5%	10.0%	2.6%	-5.5%	0.7%	-1.8%	0.7%
<b>TOTAL NONFARM EMPLOYMENT</b>										
Idaho (Thousands)	461.2	477.4	492.6	508.8	521.6	535.7	547.1	558.8	572.2	586.2
% Ch	5.6%	3.5%	3.2%	3.3%	2.5%	2.7%	2.1%	2.1%	2.4%	2.5%
U.S. (Millions)	114.1	117.2	119.6	122.7	125.8	128.6	130.6	132.5	133.9	135.5
% Ch	3.1%	2.7%	2.1%	2.6%	2.6%	2.2%	1.6%	1.4%	1.0%	1.2%
<b>FINANCIAL MARKETS</b>										
Federal Funds Rate	4.2%	5.8%	5.3%	5.5%	5.4%	5.0%	5.5%	5.5%	5.5%	5.5%
Bank Prime Rate	7.1%	8.8%	8.3%	8.4%	8.4%	8.0%	8.5%	8.5%	8.5%	8.5%
Mort Rate, New Homes	7.5%	7.9%	7.8%	7.7%	7.1%	7.2%	7.7%	7.2%	7.0%	7.1%
<b>INFLATION</b>										
GDP Price Deflator	2.1%	2.1%	1.8%	1.7%	1.2%	1.3%	1.4%	1.6%	1.8%	2.0%
Personal Cons Deflator	2.1%	2.2%	2.0%	1.7%	0.9%	1.6%	1.7%	1.7%	2.2%	2.4%
Consumer Price Index	2.6%	2.8%	2.9%	2.3%	1.6%	2.2%	2.3%	2.1%	2.6%	2.8%

**National Variables Forecast by Standard and Poor's DRI**  
**Forecast Begins the THIRD Quarter of 1999**

# IDAHO ECONOMIC FORECAST

## EXECUTIVE SUMMARY

JANUARY 2000

	2000				2001				2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>GDP (BILLIONS)</b>												
Current \$	9,492	9,605	9,732	9,857	9,997	10,106	10,212	10,324	10,457	10,580	10,711	10,848
% Ch	3.3%	4.9%	5.4%	5.2%	5.8%	4.4%	4.3%	4.5%	5.3%	4.8%	5.1%	5.2%
1992 Chain-Weighted	8,275	8,346	8,423	8,498	8,583	8,647	8,707	8,768	8,838	8,902	8,971	9,043
% Ch	1.7%	3.4%	3.8%	3.6%	4.1%	3.0%	2.8%	2.9%	3.2%	2.9%	3.1%	3.2%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	28,567	28,897	29,196	29,563	30,014	30,416	30,821	31,209	31,666	32,101	32,550	32,999
% Ch	6.9%	4.7%	4.2%	5.1%	6.2%	5.5%	5.4%	5.1%	6.0%	5.6%	5.7%	5.6%
Idaho Nonfarm (Millions)	27,772	28,131	28,468	28,814	29,247	29,637	30,034	30,426	30,882	31,307	31,743	32,186
% Ch	6.5%	5.3%	4.9%	5.0%	6.1%	5.4%	5.5%	5.3%	6.1%	5.6%	5.7%	5.7%
U.S. (Billions)	8,049	8,139	8,231	8,332	8,449	8,549	8,640	8,731	8,842	8,940	9,041	9,144
% Ch	5.5%	4.6%	4.6%	5.0%	5.7%	4.8%	4.4%	4.3%	5.2%	4.5%	4.6%	4.6%
<b>PERSONAL INCOME - 1992 \$</b>												
Idaho (Millions)	24,775	24,970	25,137	25,355	25,632	25,856	26,071	26,259	26,491	26,701	26,915	27,122
% Ch	5.0%	3.2%	2.7%	3.5%	4.4%	3.5%	3.4%	2.9%	3.6%	3.2%	3.2%	3.1%
Idaho Nonfarm (Millions)	24,086	24,309	24,510	24,713	24,977	25,193	25,405	25,600	25,836	26,041	26,248	26,454
% Ch	4.6%	3.8%	3.4%	3.4%	4.3%	3.5%	3.4%	3.1%	3.7%	3.2%	3.2%	3.2%
U.S. (Billions)	6,980	7,033	7,086	7,146	7,215	7,267	7,308	7,346	7,397	7,436	7,476	7,516
% Ch	3.6%	3.1%	3.1%	3.4%	3.9%	2.9%	2.3%	2.1%	2.8%	2.1%	2.2%	2.2%
<b>HOUSING STARTS</b>												
Idaho	9,850	9,957	10,074	10,198	10,205	10,180	10,112	10,050	10,042	10,020	9,995	9,981
% Ch	1.5%	4.4%	4.8%	5.0%	0.3%	-1.0%	-2.6%	-2.4%	-0.3%	-0.9%	-1.0%	-0.6%
U.S. (Millions)	1,574	1,561	1,568	1,589	1,597	1,590	1,578	1,573	1,567	1,558	1,550	1,549
% Ch	-9.0%	-3.3%	1.8%	5.5%	2.1%	-1.8%	-3.1%	-1.1%	-1.5%	-2.5%	-1.9%	-0.3%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho (Thousands)	543.3	546.3	548.4	550.5	553.7	557.1	560.5	563.7	567.1	570.5	573.9	577.1
% Ch	3.0%	2.2%	1.6%	1.5%	2.4%	2.4%	2.5%	2.4%	2.4%	2.4%	2.4%	2.3%
U.S. (Millions)	129.9	130.4	130.9	131.4	131.9	132.4	132.7	133.1	133.4	133.7	134.1	134.4
% Ch	1.3%	1.5%	1.5%	1.7%	1.6%	1.4%	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%
<b>FINANCIAL MARKETS</b>												
Federal Funds Rate	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Bank Prime Rate	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Mort Rate, New Homes	7.9%	7.8%	7.7%	7.5%	7.4%	7.2%	7.1%	7.1%	7.0%	7.0%	7.0%	7.1%
<b>INFLATION</b>												
GDP Price Deflator	1.6%	1.4%	1.6%	1.6%	1.7%	1.4%	1.5%	1.6%	2.0%	1.8%	1.9%	2.0%
Personal Cons Deflator	1.8%	1.5%	1.5%	1.5%	1.7%	1.9%	2.0%	2.1%	2.3%	2.3%	2.4%	2.4%
Consumer Price Index	2.4%	1.9%	1.9%	2.0%	2.1%	2.3%	2.4%	2.5%	2.6%	2.6%	2.7%	2.8%

**National Variables Forecast by Standard and Poor's DRI**  
**Forecast Begins the THIRD Quarter of 1999**

## **NATIONAL FORECAST DESCRIPTION**

### **The Forecast Period is the Third Quarter of 1999 to the Fourth Quarter of 2003**

The U.S. economy continued to grow as it reached the end of the 2<sup>nd</sup> millenium. Already, it's the longest peacetime expansion, and in February 2000 it will be the longest expansion on record. Despite its long run, the economy shows few signs of slowing down. In fact, some signs show it is actually speeding up. After growing at a 1.9% annual rate in the second quarter of 1999, real GDP posted a 5.7% showing in the following quarter. Early estimates suggest it grew about 5.0% in the fourth quarter of last year. Overall, real GDP is believed to have grown 3.9% in 1999, well above almost every estimate of its potential. Another measure that has outperformed almost every expectation has been employment. Last year the U.S. civilian unemployment rate averaged 4.2%, which is about one and a half percentage points below a reasonable estimate of full employment. Given the tight labor market, one would expect to see inflationary pressures surfacing. However, inflation has been relatively tame. In fact, employee compensation growth actually slowed from 3.5% in 1998 to 3.1% in 1999. Energy prices did rise significantly in 1999, but this jump was from depressed levels. Even with the surge in energy prices, consumer inflation was just 2.2% last year. As it prepares to break the expansion record, the economy is more aptly described as hitting full stride versus being on its last leg.

The economy's long string of successes has led to speculation that we have entered an era of "the New Economy." An important feature of this school of thought is that something fundamental has happened to the economy that has made it less volatile. In a way, it could be described as the economy that would not die. On closer inspection the "new economy" looks a lot like the "old economy." And to paraphrase Mark Twain, "the news of the business cycle's death is greatly exaggerated." What we are seeing is the "old economy" prospering under nearly ideal conditions. As such, it still remains vulnerable to disruptions. A classic example is a policy mistake by the nation's central bank. Although inflation is currently tame, it could heat up in the future. If the Federal Reserve were slow to react to this threat, prices could accelerate quickly. In order to wrangle inflation, the Federal Reserve would have to tighten more severely than if it had acted more promptly to the inflation threat. The higher interest rates would throw cold water on the hot economy and plunge it into a recession. The economy could also stumble if the stock market falters. Such a scenario could happen. A look at fundamentals suggests the stock market is overvalued by 30%, hardly a trivial amount. Furthermore, the rise in the stock market has buoyed consumer confidence. Should the stock market go south, so would consumer confidence and spending. This could start a chain reaction that would eventually lead the economy into a recession.

The current forecast assumes there will be no major policy mistakes nor will there be a catastrophic drop in the stock market. Thus, there should not be a recession over the forecast period. Instead, the forecast calls for the economy to cool. Interestingly, the slowdown will not come from weak demand, but weak supply. The booming economy has dried up the labor pool. Expanding businesses will find it increasingly difficult to find qualified employees. Eventually, the tight labor market will put pressure on inflation. However, the Federal Reserve is expected to maintain its vigilance and keep inflation in check while avoiding a recession.

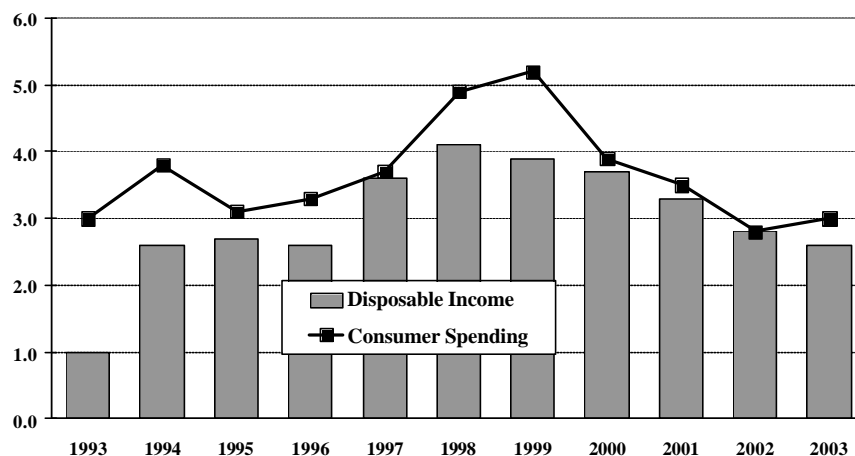
## **SELECTED NATIONAL ECONOMIC INDICATORS**

**Consumer Spending:** Real consumer spending accounts for about two-thirds of the economic activity in the U.S., and it has fueled the strong economic growth in recent years. In fact, real consumer spending has out paced both real GDP and disposable income growth over the last four years. While spending can rise faster than income for short periods, at some point it should return to the rate of income growth. This is because consumers eventually exhaust savings and credit sources. American

consumers appear to be reaching the point where it will be harder to maintain the current rate of spending above income growth. In order to support their spendthrift ways, consumers have turned to their savings and to credit. The U.S. personal savings rate dropped from nearly 9.0% in 1992 to about 2.0% last year. The main reason consumers have let personal savings slide is because they believe the rising stock market is doing their saving for them. The ratio of wealth to income has risen to nearly 6 — its highest level ever. Rising

confidence and low interest rates have also convinced consumers to take on record levels of debt during this expansion. It was believed that consumers had exhausted their taste for debt when the ratio of non-mortgage consumer debt to disposable income was around 18% in 1994. Since then it has become obvious that consumers are comfortable with higher levels of debt. The ratio of debt to income was just over 20% in 1998 and showed no sign of easing in 1999. Another measure shows that for the first time total U.S. household debt (including mortgage debt) has risen above after-tax income. Again, increased household wealth seems to have played a role. It should be pointed out that not all households are shouldering an equal debt burden. Anecdotal evidence suggests much of the new debt has gone to the least creditworthy borrowers. This would help to explain the high number of bankruptcies in 1999. Several other factors suggest the brisk consumer spending in recent years will not continue. One of the reasons for the spending slowdown is the anticipated decline in consumer confidence caused by a cooling job market. In addition, rising interest rates will dampen the demand for big-ticket items. Also, the healthy stock market gains of the last few years are not expected to continue in the near future. The two big question marks are savings and debt. It remains to be seen whether consumers will lean even harder on these two financing sources over the forecast period. The current forecast assumes real consumer spending growth will slow to nearly the same pace as real disposable income growth.

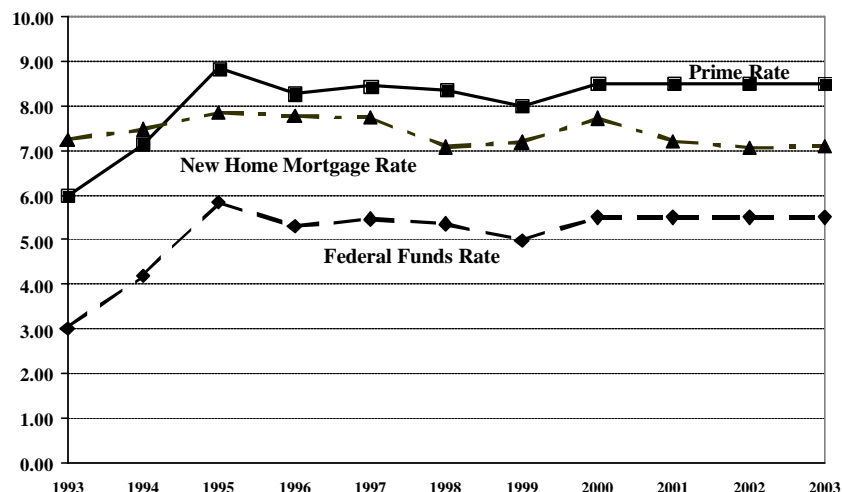
## Real Spending & Real Income Growth



Source: Standard and Poor's DRI

**Financial:** The Federal Reserve Bank raised its federal funds rate target by one-quarter percentage point to 5.5% and increased its discount rate to 5.0% in the fall of 1999. This brings the two rates back to levels seen prior to the 1998 Russian financial crises. This most recent rate hike will probably be the last of this tightening cycle. Several factors support this forecast. First, U.S. interest rates are well above those in other industrial countries. Second, although nominal interest rates are low,

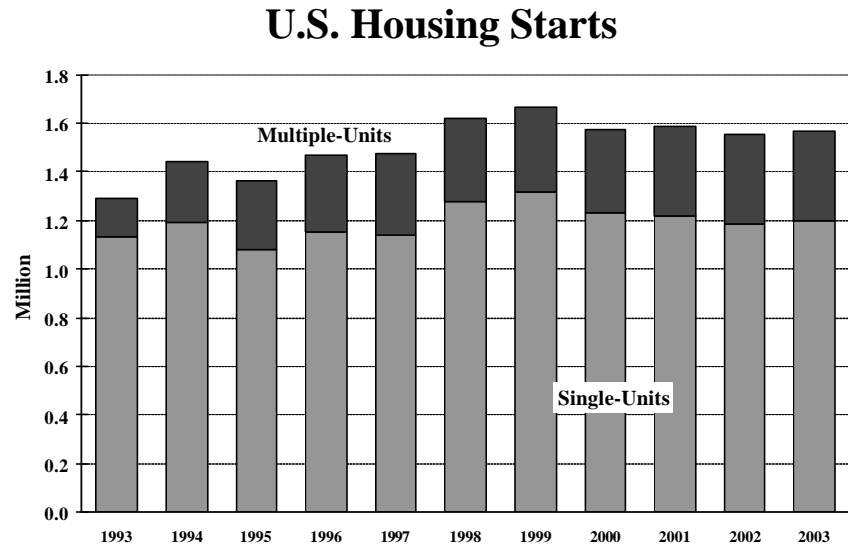
## Selected Interest Rates



Source: Standard and Poor's DRI

real interest rates are relatively high. This is because inflation is so low. Third, in order to preserve its nonpartisan image, the Federal Reserve usually does not like to make major monetary policy changes during an election year. Fourth, the nation's central bank may have shifted its emphasis away from inflation fighting and toward keeping the economy moving. In the statement announcing its recent tightening, the Federal Reserve noted that cost pressures appear generally contained, while there are tentative signs that growth may be slowing in certain interest-sensitive sectors of the economy. This should not be misconstrued to mean the Federal Reserve has abandoned its inflation-fighting vigilance. Chairman Greenspan and company have worked very hard to get the economy to perform in a nearly flawless manner. They will not hesitate to tighten if inflation threatens their hard wrought legacy.

**Housing:** The U.S. housing industry continued to grow last fall. This is not to say everything has gone smoothly for this industry in 1999. Indeed, there have been a few bumps in the road that generated fears that the housing industry's hot streak was finally cooling. For example, new home sales remained suspiciously high this summer despite rising interest rates. It was originally reported that sales of new homes were 930,000 units last August. However, this figure was later revised to 934,400.



Source: Standard and Poor's DRI

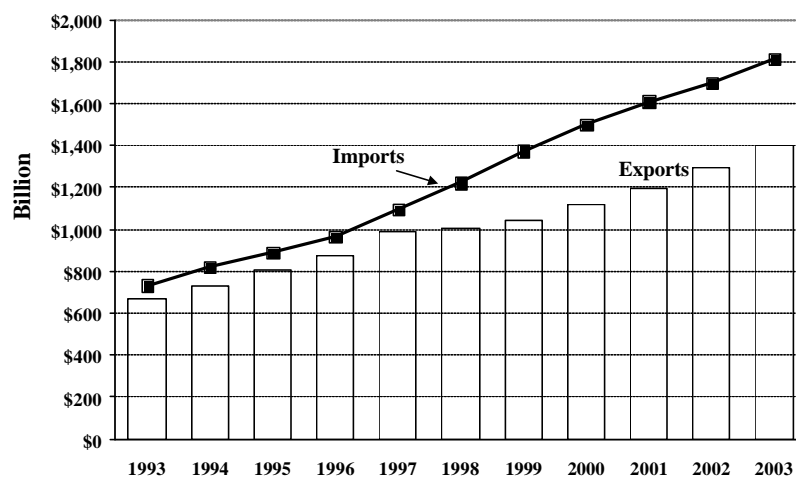
This was followed by another round of weak housing reports for September 1999. Sales of new homes dropped to 848,000 units in that month. Housing starts also declined, falling 2.8% that month. In addition, the supply of unsold new homes in September rose to 4.9 months supply from August's 4.0 months supply. Some of the slowdown is attributable to the hurricanes that battered the East Coast in the fall. However, economic fundamentals played a bigger role. It appears that rising housing prices and higher interest rates have finally affected new home sales. The average price of a new home rose from \$192,400 in August to \$196,900 in September. Mortgage interest rates rose by about 90 basis points last summer. Not all of the news was bad, however. Sales of new homes rebounded strongly to a record 986,000 annual pace in October 1999. The sales of existing homes topped 5 million for the 11<sup>th</sup> consecutive month in September. A couple of factors suggest the outlook for the housing sector remains relatively strong. First, the 30-year mortgage rate has fallen recently. Second, notwithstanding the recent increases in rates and home prices, housing is still quite affordable. The National Association of Realtors' Housing Affordability Index was 127.4 in the third quarter of last year. This means that half of the families in the United States had at least 127.4% of the income needed to buy a median-priced home. This affordability has translated into a larger portion of household owning homes. About two-third of U.S. households owned their homes in 1999, which was up from around 64% in 1990. After rising to 1.67 million starts in 1999, there should be 1.57 million in 2000, 1.59 million in 2001, 1.56 million in 2002, and 1.57 million starts in 2003.

**International:** International trade has been the most notable exception to the near perfect U.S. economy. The U.S trade deficit hit \$24.9 billion annually in July 1999 and \$23.5 billion in August 1999. To put this in perspective, the trade deficit for all of 1992 was just \$27.8 billion. It is expected to rise to a whopping \$263 billion for 1999. Trade was not always this much of a drag on the economy. The weakening U.S. dollar helped to boost exports after the mid-1980s. In fact, international trade



eventually became an engine of economic growth. Unfortunately, the trade deficit ballooned after the early 1990s. Unlike the mid-1980s when the strong dollar hampered trade, the current deficit is a reflection of the U.S. economy's strength. The U.S. trade deficit was under \$100 billion as recently as 1997. This changed in 1998, when the full effects of the Asian economic crisis were felt. In that year, the strong U.S. economy helped imports to grow at a 5.6% pace, while exports actually retreated 0.2%. As a result the trade deficit grew to nearly \$150 billion in 1998. The lopsided trade situation continued in 1999, as exports rose by nearly 13.0% and imports eked out only 3.0% growth. This caused the trade deficit to deteriorate to \$263 billion in 1999. The good news is that while the trade deficit is not likely to improve over the forecast period, it is not expected to get much worse. A review of worldwide economic conditions leads to this relatively optimistic outlook for trade. Europe should enjoy stable growth over the forecast period. Most of Asia is showing signs of recovery from that region's recent meltdown. However, Japan and Indonesia are notable exceptions. Depressed commodity prices have combined with imported financial shocks and domestic political problems to produce steep output drops in Venezuela, Colombia, and Ecuador. Depressed commodity prices and excessively tight monetary policy have played havoc with the Chilean economy. However, rising commodity prices point to an improved outlook for these countries.

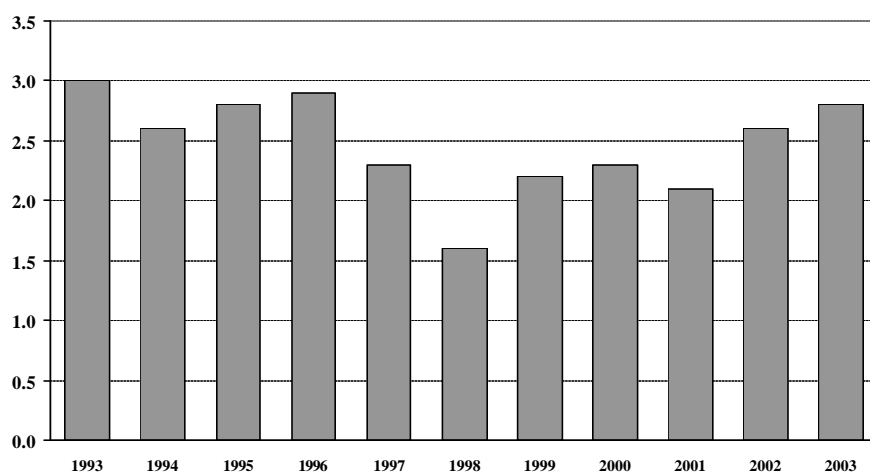
## Real U.S. Imports and Exports



Source: Standard & Poor's DRI

**Inflation:** The low inflation rate is an enigmatic, but welcome, feature of the current U.S. economy. During the second half of last year, inflation actually eased, as U.S. economic growth barreled along at a nearly 5.0% annual pace and the national unemployment rate approached record lows. Conventional wisdom suggests that inflation should be accelerating, not decelerating. Indeed, some consumer prices have risen. After falling in each quarter of 1998, the implicit price deflator for

## Consumer Price Inflation



Source: Standard and Poor's DRI

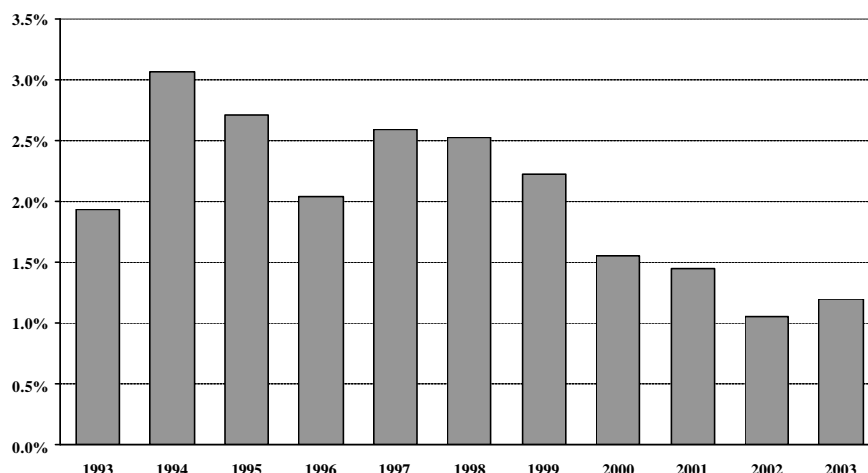
gasoline and oil soared through 1999, growing by as much as a 68% annual rate in that year's second quarter. Rising crude oil prices explain this increase. The acquisition price of foreign crude more than doubled from \$10.83 per barrel in the fourth quarter of 1998 to an estimated \$22.38 per barrel in 1999's last quarter. There are two major reasons for the price resurgence: the increased demand due to the

Asian economic recovery and decreased supply caused by OPEC production cuts. The latter is a bit surprising because cartels are inherently unstable and higher prices usually lead to members cheating on quotas. All members, even the notoriously inkompliant Venezuela, seem to be abiding with the current round of quotas. Late in the summer of 1999, Philip Morris announced an 18-cent increase in the price per pack of cigarettes. This raised the average per-package price of cigarettes 7.3% to \$2.65. This change covers the January 1, 2000 increase in the federal excise tax and legal obligations. Additionally, commodity prices, with the notable exception of agricultural goods, have begun to strengthen. So far, inflationary pressures have only been noticeable at the producer level; consumers have yet to experience a significant jump in overall inflation. At this point of the expansion, inflation should be heating up with wages and other employee costs putting pressure on prices. However, these costs have been relatively tame. There are several explanations for this. First, employee benefits costs increases have been kept in check by the transition from traditional fee-for-service health plans to managed care health plans. Second, healthy productivity gains seem to keep unit labor costs down. Third, U.S. manufacturing capacity utilization has remained below inflationary levels. Fourth, global competition makes raising prices more difficult for domestic businesses. Given these conditions, inflation should remain relatively tame over the forecast horizon. Specifically, consumer price inflation should remain just under 3.0% per year and producer price inflation for final goods should rise by no more than 2.5% annually.

**Employment:** After a slow start, employment is currently one of the brightest facets of the near-record economic expansion. Employment is typically one of the last parts of the economy to show improvement during an expansion. During the current one, the economy took longer to achieve full employment than the duration of most recoveries. Historical records show that peacetime recoveries have lasted an average of 29 months. In March 1992, on the expansion's first birthday, the unemployment rate had

actually jumped to 7.4%. It was 7.0% on its second birthday. Thus, with time seeming to run out, unemployment was still well above the full-employment level. It would take about four years after the recovery's start to reach full employment. A look at nonfarm employment data paints a similar picture. From 1991 to 1992, the number of nonfarm jobs in the U.S. grew a meager 0.3%. The pace improved to 1.9% in 1993. It rose again to 3.1% in 1994. Since then, nonfarm employment has grown by at least 2.0% annually. At first, the growing number of jobs available attracted more workers into the labor force, which kept the unemployment rate relatively high. Eventually, these workers found jobs and the unemployment rate began to move downward. In fact, it has moved to levels not seen in nearly three decades. In the fall of 1999, the U.S. civilian unemployment rate fell to 4.1%, which was well below the 5.4% estimate of full employment. Ironically, the tight labor market will be one of the factors limiting future job growth. This can be seen by looking at both nonfarm employment growth and unemployment. Over the forecast period nonfarm employment growth slows from 2.2% in 1999 to about 1.0% by 2003. However, the unemployment rate barely rises from 4.1% in 2000 to 4.4% in 2003, which is still a full percentage point lower than full employment.

### U.S. Nonfarm Employment Growth

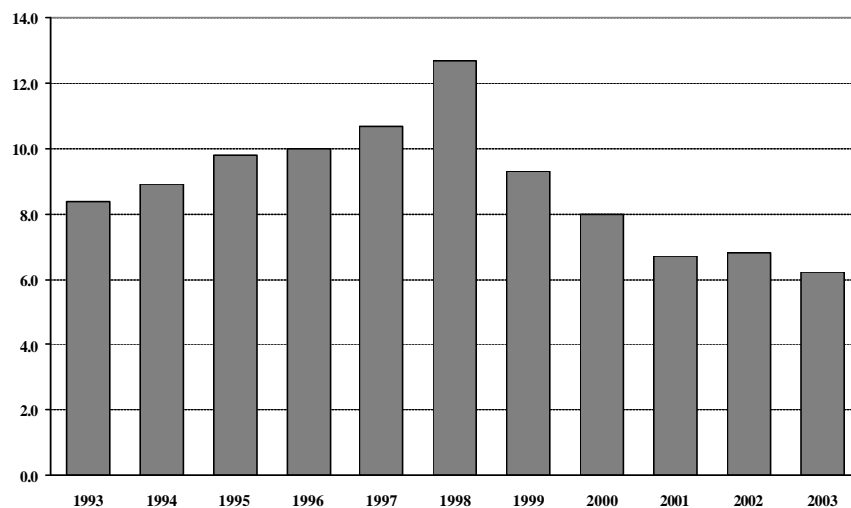


Source: Standard and Poor's DRI

**Business Investment:** Business investment has been one of the most consistent performers during the current expansion. A review of several numbers brings this point home. Real business fixed investment has grown much faster than real GDP in each year since 1992. Much of this growth was fueled by the double-digit rise in investment spending on computers and software. Economic reality made this level of investment necessary. American businesses invested heavily in technology in order to remain competitive with their global counterparts. In addition, the tightening labor

market created a need to replace labor with capital. The increased investment may help to explain why productivity has soared in recent years. Like employment, productivity got off to a slow start during this expansion, but has picked up speed recently. Output per hour actually dipped slightly in 1993, but advanced by about 2.6% in both 1998 and 1999. It should be pointed out that investment alone does not account for this surge in productivity. Some of the increase in output reflects the fact that workers are more adept at using the new technology. In previous forecasts it was anticipated that companies would hedge against Y2K-related supply disruptions with higher on hand inventories. This should have a negative impact in the first part of next year. If supply disruptions are minor, businesses will curtail production and work down stockpiles. On the other hand, if there were major supply interruptions, output would suffer. It now appears that the inventory buildup in the latter part of 1999 was not as large as had been projected earlier. Thus, the impact on GDP in the first quarter of 2000 should be smaller.

**Real Business Investment Growth**



Source: Standard and Poor's DRI

## **IDAHO FORECAST DESCRIPTION**

### **The Forecast Period is the Third Quarter of 1999 to the Fourth Quarter of 2003**

The outlook for the state's economy has changed little since the October 1999 *Idaho Economic Forecast* was released. At that time it was projected that after booming for several years, the Gem State's economic growth would take a breather and expand slower over the forecast period. It is important to note that while growth is forecast to slow, it is not expected to stall or decline. As such, the state's growth streak that began in 1987 should continue over the foreseeable future. It is anticipated that Idaho nonfarm employment growth will drift down to 2.1% in both 2000 and 2001 then rise to 2.4% in 2002, and 2.5% in 2003. While this is low compared to recent years' increases, it is still faster than its national counterpart. National growth is not expected to increase by more than 2.0% in any year of this forecast.

A closer look reveals some of the hottest and coolest Idaho employment sectors. Manufacturing is expected to enjoy above average growth over the next few years thanks to a strong showing by its electrical and nonelectrical machinery component. Not only is this the largest manufacturing category, it is also one of the fastest growing. The other durable manufacturing category should recover nicely after suffering a small decline in 2000. The outlooks for two of the state's traditional manufacturing giants are not as bright. Lumber and wood products employment is forecast to drop from 13,241 in 1999 to 11,889 in 2003. Food processing employment, on the other hand, should rise slowly. Employment in both the mining and construction industries should remain fairly stable. The services-producing sector is projected to set the pace for overall job growth. This should not come as a surprise, as it accounts for about 80% of all nonfarm jobs. Its strongest performers should be trade and services, which also happen to be its largest categories. A more detailed analysis of these and other employment sectors follow this introduction.

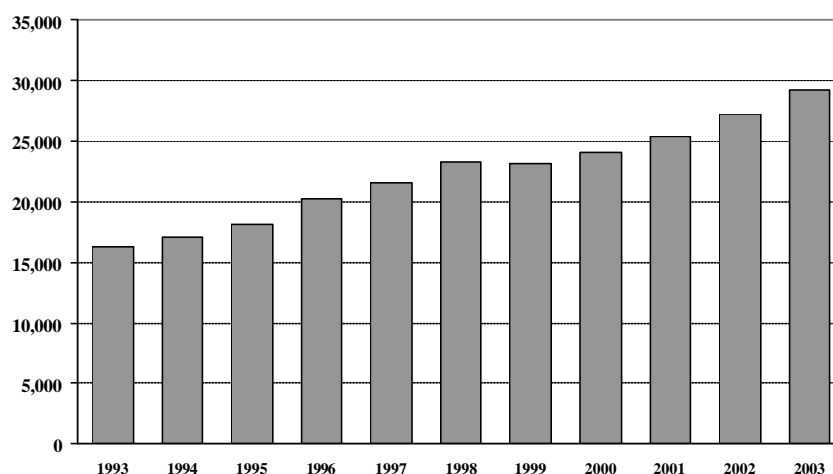
Idaho nominal personal income should chug along at a 5.5% to 6.0% annual pace over the forecast horizon. As is the case with employment, Idaho nominal personal income should grow faster than national nominal personal income. Adjusted for inflation, Idaho personal income is anticipated to rise 4.6% in 1999, 3.8% in 2000, 3.6% in 2001, 3.3% in 2002, and 3.4% in 2003. National personal income is expected to advance 4.1% in 1999, 3.4% in 2000, 3.2% in 2001, 2.4% in 2002, and 2.5% in 2003. Given Idaho's strong employment picture, it is no surprise that the lion's share of income growth should come in the form of wage and salary payments. Wage and salary payments also benefit from relatively strong annual average wage growth that is fueled by tight labor markets. Nonfarm proprietors should also propel income. From 1999 to 2003, nonfarm proprietors' income should climb from \$3.1 billion to \$3.8 billion. Unfortunately, farmers and ranchers are not expected to do as well. Farm proprietors' income is projected to grow slowly to about \$300 million, which is well below its high of \$463 million in 1996.

## **SELECTED IDAHO ECONOMIC INDICATORS**

**Electrical and Nonelectrical Machinery:** After several false starts, it appears the state's high-tech sector may once again be on the road to prosperity. This is a welcome relief from the last few years. Micron Technology, a world-class producer of computer memory products, will be the biggest beneficiary in the warmer high-tech business climate. This company's profits soared in the mid-1990s thanks to solid memory prices and continued manufacturing improvements that steadily reduced production costs. In order to take advantage of the healthy market, Micron undertook an aggressive

expansion that included a new manufacturing plant in Lehi, Utah. Unfortunately, the run of strong returns was stopped before this new factory was completed. Construction on the Lehi facility, which had been proceeding at a breakneck pace, was slowed to contain costs. This current downturn has lasted longer than most had anticipated. According to a Micron Technology press release, the price per megabit of memory declined 75% in its 1997 fiscal year, 60% in fiscal 1998, and 40% in fiscal 1999. Despite these declines, the company was able to avoid the layoffs that Micron saw (half its work force) in the mid-1980s. The recent bout of tough times has not stopped Micron from betting on the future. The company sold off some of its non-core businesses and acquired Texas Instruments' memory business in the fall of 1998. This complicated deal included several production plants that would help the company meet increased demand. One of the reasons the current slump has been so protracted is because worldwide memory manufacturing capacity has grown exponentially. For example, dynamic random access memory (DRAM) capacity in Taiwan increased from 5,000 wafers per month in 1992 to 180,000 wafers per month in 1999. Another factor that has hurt prices is the slump in demand caused by the Asian financial crises. It appears that many Asian countries' economies are on the mend (with the notable exception of Japan), and there have been some signs that demand is picking back up. Even more promising is the fact that memory prices have recently shown signs of strengthening. Hewlett-Packard is Boise's other high-tech giant. Like its Treasure Valley neighbor Micron, it too has seen its share of changes. In the past, employment at the Boise plant had been more weighted towards manufacturing. During its early 1990's heyday, the site's employment rose above 5,000 thanks in large part to the success of the company's LaserJet printers. Employment at the site is currently at about 4,000 people. During the past few years the company has emphasized research and development at the Boise plant and de-emphasized manufacturing. The company sold its LaserJet formatter board operations to Jabil Circuit, Inc. Virtually all of the employees involved with Hewlett-Packard's formatter operations transferred to Jabil. Jabil's operations are temporarily housed at the Hewlett-Packard plant until their Treasure Valley facility is completed. Idaho electrical and nonelectrical manufacturing employment is expected to decline 0.6% in 1999, then rise 4.1% in 2000, 5.2% in 2001, 7.4% in 2002, and 7.5% in 2003.

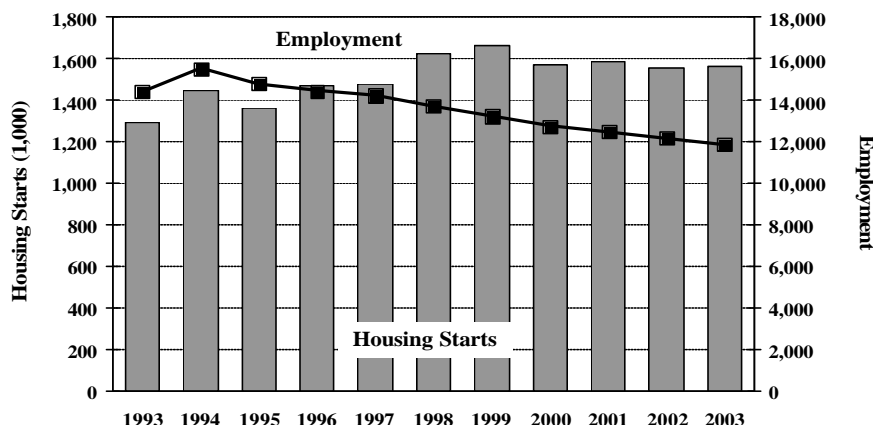
**Idaho Electrical & Nonelectrical Employment**



**Lumber and Wood Products:** The last five years have been tough for this industry and there is no relief in sight. This sector most recently peaked at around 15,500 jobs in 1993. From then to 1998, nearly 1,800 positions were lost. In 1998 alone payrolls dropped by 500 workers. Many of these losses resulted from mill closures. Closures have reached epidemic proportions in the West. For every two mills that were operating in 1990, only one was still in business in 1999. These declines were especially disappointing given the strong U.S. housing market. There were 1.62 million housing starts in the U.S. in 1998, which were a 10% improvement over 1997 and the strongest showing since 1987. As a result, U.S. consumption of softwood lumber and structural panels set new records in 1998. Given the soaring demand, it would be reasonable to expect wood product prices to climb. Instead, lumber

prices fell. This paradox—record consumption and declining prices—can be explained by looking closely at export markets. U.S. exports last year totaled just over a billion board feet, which was down 31% from 1997 and roughly half its 1994 level. Canadian overseas exports dropped 25% last year. The weakness in export markets reflected plunging demand in Asia. The natural consequence of reduced Asian demand was a North American market awash in supply—and prices declined accordingly. The recoveries in many of the smaller Asian countries have raised hopes of stronger prices. Indeed both lumber and structural product prices rose through the first half of 1999. Unfortunately, they have since retreated. Perhaps this reflects the current excess capacity in this industry. One estimate says the industry already geared up to produce 20-25% more lumber than is being consumed in North America and Asia. In the long term, employment in the lumber and wood products industry will be limited by the dwindling supply of timber from public lands. For example, Random Lengths reported that only 30% of the Idaho timber harvested in 1998 came from public lands, although 80% of the state's timber sat on public lands. The uncertainty of the public timber supply should limit future investment and further dampen employment in the Gem State's lumber and wood products sector. Gem State lumber and wood products employment should slide 3.6% in 1999, 3.7% in 2000, 1.9% in 2001, 2.7% in 2002, and 2.3% in 2003.

## Idaho Lumber & Wood Products Employment and U.S. Housing Starts

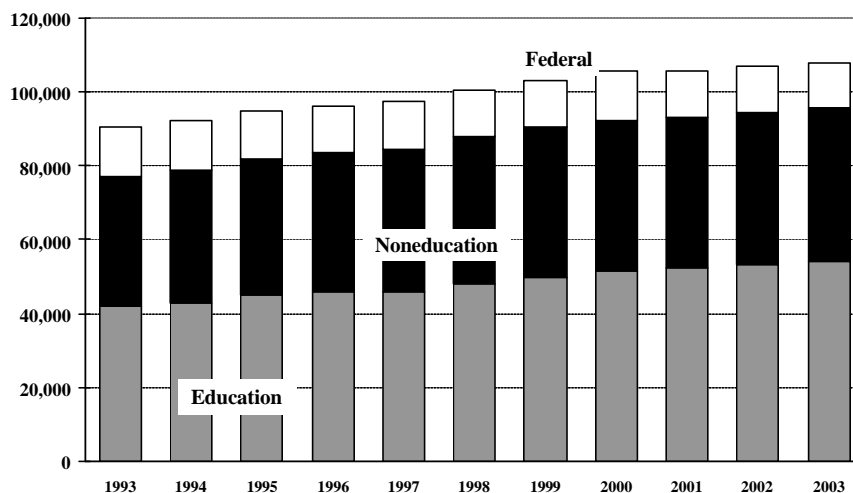


Sources: Standard and Poor's DRI and DFM

## Federal, State, and Local Governments:

The current forecast for Idaho's government sectors calls for state and local employment growth to slow and federal employment to fall. Idaho state and local government employment combined advanced over 3.5% annually during the first half of this decade, which was more than twice the national average. During this same period, the Gem State's population grew as much as three times as fast as the U.S. population and its economic growth eclipsed its national counterpart. Both Idaho population and economic growth should cool over the forecast, and this will take a toll on this sector's employment growth. State and local government employment gains will also be limited by a law that caps local government budgets. As a

## Idaho Government Employment



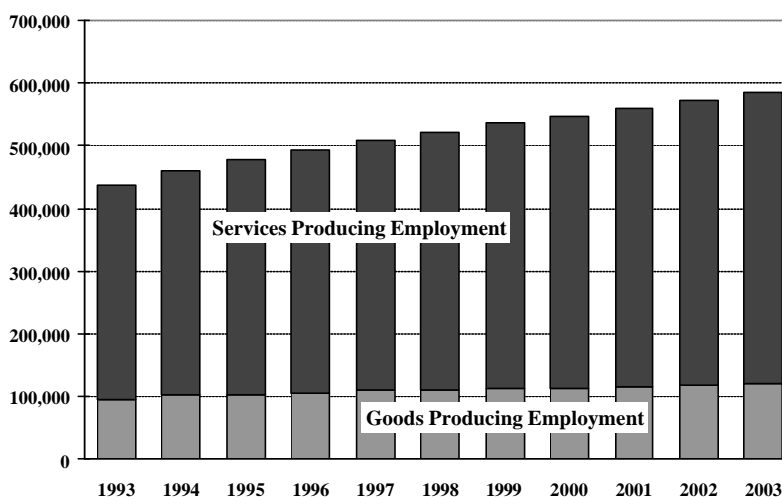
result, after leading its national counterpart for several years, Idaho state and local government employment growth will drop slightly below the national pace. Specifically, Idaho state and local employment is forecast to increase 3.1% in 1999, 1.8% in 2000, 1.3% in 2001, 1.2% in 2002, and 1.2% in 2003. Nationally, state and local government employment is anticipated to rise 2.1% in 1999, 1.7% in 2000, 1.6% in 2001, 1.4% in 2002, and 1.3% in 2003. As has traditionally been the case, most of the Idaho government employment growth should come from the education sector. It is expected to average 1.8% annual growth over the 1999-2003 period, while non-education employment is forecast to rise just 0.8% annually. Federal austerity measures should limit federal government job opportunities in Idaho. In fact, this category should see its employment fall from 12,678 in 1999 to 12,418 in 2003. It will get a short respite in the first half of this year, when the hiring of temporary census workers swells employment to 14,055. By the last quarter of 2000, however, Idaho federal employment is projected to be down to 12,597.

## Services-Producing

**Industries:** The services-producing sector is the state's largest and most diverse employment category. Alone, it accounts for about 80% all nonfarm jobs. It consists of finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, what remains still accounts for over 60% of all jobs. Not only is this sector

huge, it has been an important growth engine. For example, over the decade from 1988 to 1998, Idaho services-producing employment accounted for about 80% of the total job gain. This growth occurred because of favorable cyclical and structural factors. One of the most significant factors has been the increasing number of women in the labor force. This has increased the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households; due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. In the future, the aging baby-boom generation increases the demand for services for the aged. In addition, this generation of older persons will probably be healthier than previous generations and will demand more recreational/leisure services. Structural changes will also include the way businesses operate. With the onset of the information economy, companies have more flexibility in locating their operations. They are less tied to locating near their customer base and can move to an area with a highly productive work force. Ironically, manufacturing changes have also helped service employment. Instead of taking on new employees to meet peak production, many manufacturers now hire temporary workers from employment agencies. Since these persons work for the employment agency, they are classified as service employees even though they are performing manufacturing tasks. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year because the U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate

## Idaho Nonfarm Employment

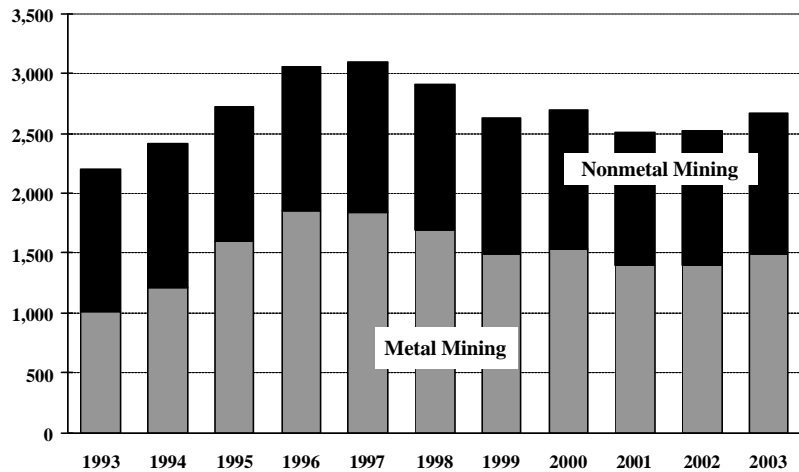


should be classified as self-employed. Overall, services-producing employment is projected to increase 3.1% in 1999, 2.5% in 2000, 2.2% in 2001, 2.4% in 2002, and 2.5% in 2003.

**Mining:** The state's mining sector should enter a period of relative stability after suffering back-to-back employment losses in 1998 and 1999. Mining employment fell from about 3,000 in 1997, to just over 2,600 in 1999, with both the metal and non-metal mining sectors suffering losses. Much of this decline is attributable to the Asian economic crises that depressed worldwide commodity prices. For example, lower prices contributed to the decision to cut production and lay off 75 of the 250 employees

at the Thompson Creek molybdenum mine and mill in Custer County. The Delemar Mine in Owyhee County fell victim to low gold prices. Given current conditions it may seem hard to believe that things should stabilize, but several factors suggest this is indeed possible. First, the Asian economic crisis is showing signs that it has bottomed out and this should halt the deflationary spiral, which will aid metal prices. Second, it does not appear that central banks will be selling gold on the open market. Third, many operations in Idaho have cut employment to the point where further large reductions do not seem possible. This is not to imply that the future will be without its challenges. Mining employment will also be affected by the winding down of Meridian Gold's Beartrack Mine in Lemhi County. The number of workers at the mine will shrink from the current 150 to about 15 to 25 employees by the first quarter of 2001. Metal mining is not the only category to face challenges. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Soft agricultural commodity prices will probably lead to acreage reductions that reduce fertilizer demand. This will affect companies in Southeast Idaho where phosphorus ore is mined and fertilizer is manufactured. Mining employment should hover between 2,500 and 2,700 over the forecast period.

### Idaho Mining Employment



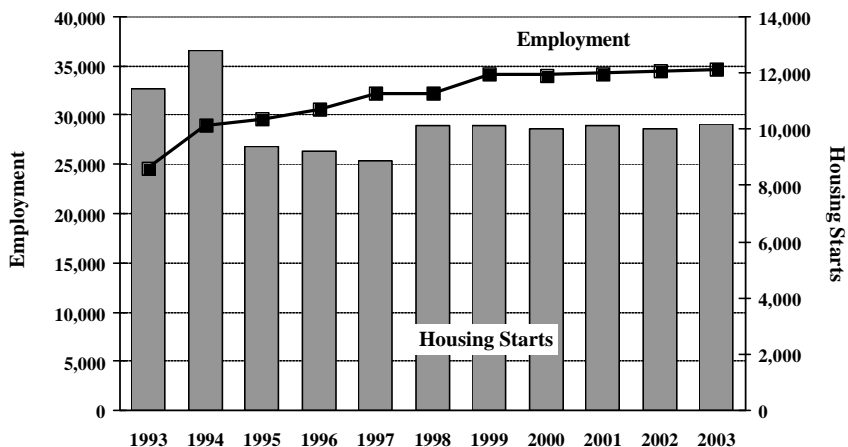
**Construction:** Idaho should conclude this decade without the help of one its most important growth engines: construction. Its absence will be missed. Like the overall Idaho economy, the construction sector started to recover in the late 1980s. In 1983, construction employment was just above 13,000. It took off briefly to about 15,000 in 1985, but retreated to 13,721 in 1987. In 1988, the current recovery took off in earnest. It started slowly at first, with employment growing by just 3.5% in 1988. It was initially fueled by the commercial sector. Construction employment continued to grow in 1988, while housing starts actually fell slightly. But housing joined the growth bandwagon soon after. Idaho housing starts increased an astounding 40.2% from 1988 to 1989 in what would become the first in a series of six straight years of double-digit growth. There were over 12,700 housing starts when this run ended in 1994. This was nearly fourfold 1988's 3,334 starts. The boom resulted from Idaho's strong population growth during that period. The Gem State was one of the nation's strongest economies during that period, and attracted thousands of newcomers into the state. The strong net in-migration



caused Idaho's population to shift from growing slower than the national rate in 1989 to growing three times the national rate by 1994. Because of the dearth of housing starts in the early 1980s, the construction industry found itself in catch-up mode during most of the boom period. This helps explain why there was no serious housing inventory overhang despite the robust growth. Housing starts did drop 26.7% in 1995, however. This realignment was a move to more sustainable levels. Despite the drop, there

were still 9,362 starts in 1995. It should also be noted that while housing starts fell in 1995, construction employment continued to grow, reflecting the strength of the nonresidential building sector. Since 1995, construction employment levels have hovered near 32,000, which is more than twice as high as in 1987. Idaho housing starts are forecast to remain near 10,000 units. Construction employment is forecast to grow slowly from 34,123 in 1999 to 34,612 in 2003.

## Idaho Construction Employment and Housing Starts



## ALTERNATIVE FORECASTS

DRI has assigned a 60% probability of occurrence to its November 1999 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP grows 3.9% in 1999, 3.4% in 2000, 3.5% in 2001, 3.0% in 2002, and 3.2% in 2003;
- U.S. nonfarm employment advances 2.2% this year, 1.6% next year, 1.4% in 2001, then averages about 1.1% thereafter;
- the U.S. civilian unemployment rate remains at least one percentage point below the full employment rate of 5.5%;
- consumer confidence peaks in 1999, then slowly tapers off over the forecast period;
- consumer inflation remains well below 3.0%;
- the federal budget surplus increases in each year of the forecast;
- and the U.S. merchandise trade deficit widens.

While the baseline scenario represents the most likely path for the national economy over the next few years, uncertainties surrounding several key variables mean other outcomes are also possible. To account for this, DRI prepares alternative forecasts based on different assumptions regarding these key variables. Two of these alternative forecasts, along with their impacts on the Idaho economy, are discussed below.

While it is believed the economy will not suffer a recession over the forecast period, it should be noted the risk of a recession is high. A review of the probabilities of occurrence for each forecast scenario shows this. The baseline does not include a recession and its probability of occurrence is 60%. However, both of the alternative scenarios do contain recessions and their combined probability of occurrence is 40%. This implies the chances of the economy not suffering a recession over the next few years are better than even.

### STOCK-MARKET-CORRECTION SCENARIO

The *Stock-Market-Correction Scenario* has been assigned a 10% probability of occurrence. An early recession might be triggered by a collapse of the U.S. stock market. One estimate suggests the stock market is overvalued by 30%. A correction of this magnitude would send shock waves through the U.S. economy. A stock market crash would destroy consumer wealth and confidence. Consumers would react to this by curbing spending and increasing savings. However, the impacts of the crash would not end at our shores. It could derail the Asian recoveries, which would exacerbate the U.S. downturn. It is assumed that this correction comes early next year and a recession results shortly thereafter.

This recession is relatively short lived. The Federal Reserve has been very responsive to threats to the U.S. economy's health. While it may not be able to prevent a recession, the central bank can contain the damage by moving quickly to lower interest rates after a stock market correction. Thankfully, the current low-inflation environment should provide enough maneuverability to make this possible. This downturn would be unique. In the postwar era, every recession has been preceded by a jump in core inflation rate. This recession would commence without such a jump.

As the table on the facing page shows, Idaho's economy takes its biggest hits in 2000 and 2001. Total nonfarm employment, which was expected to grow 2.1% in both 2000 and 2001 in the baseline case, averages about 1.35% growth in both years in the *Stock-Market-Correction Scenario*.

**IDAHO ECONOMIC FORECAST**  
**BASELINE AND ALTERNATIVE FORECASTS**  
**JANUARY 2000**

	BASELINE				STOCK MARKET CORRECTION				LATE RECESSION			
	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
<b>GDP (BILLIONS)</b>												
Current \$	9,228	9,671	10,159	10,649	9,228	9,414	9,712	10,239	9,228	9,705	10,208	10,243
% Ch	5.3%	4.8%	5.0%	4.8%	5.3%	2.0%	3.2%	5.4%	5.3%	5.2%	5.2%	0.3%
1992 Chain-Weighted	8,113	8,386	8,676	8,939	8,113	8,170	8,373	8,751	8,113	8,400	8,625	8,454
% Ch	3.9%	3.4%	3.5%	3.0%	3.9%	0.7%	2.5%	4.5%	3.9%	3.5%	2.7%	-2.0%
<b>PERSONAL INCOME - CURR \$</b>												
Idaho (Millions)	27,524	29,056	30,615	32,329	27,524	28,737	29,879	31,481	27,524	29,069	30,744	31,996
% Ch	6.3%	5.6%	5.4%	5.6%	6.3%	4.4%	4.0%	5.4%	6.3%	5.6%	5.8%	4.1%
U.S. (Billions)	7,783	8,188	8,592	8,992	7,783	8,067	8,274	8,651	7,783	8,187	8,617	8,792
% Ch	5.8%	5.2%	4.9%	4.6%	5.8%	3.6%	2.6%	4.5%	5.8%	5.2%	5.2%	2.0%
<b>PERSONAL INCOME - 1992 \$</b>												
Idaho (Millions)	24,147	25,059	25,954	26,808	24,147	24,844	25,581	26,539	24,146	24,992	25,753	26,030
% Ch	4.6%	3.8%	3.6%	3.3%	4.6%	2.9%	3.0%	3.7%	4.6%	3.5%	3.0%	1.1%
U.S. (Billions)	6,827	7,061	7,284	7,456	6,827	6,973	7,084	7,292	6,827	7,039	7,218	7,153
% Ch	4.1%	3.4%	3.2%	2.4%	4.1%	2.1%	1.6%	2.9%	4.1%	3.1%	2.5%	-0.9%
<b>TOTAL NONFARM EMPLOYMENT</b>												
Idaho (Thousands)	535.7	547.1	558.8	572.2	535.7	543.3	550.2	566.6	535.7	547.1	556.9	559.5
% Ch	2.7%	2.1%	2.1%	2.4%	2.7%	1.4%	1.3%	3.0%	2.7%	2.1%	1.8%	0.5%
U.S. (Millions)	128.6	130.6	132.5	133.9	128.6	129.1	128.5	130.8	128.6	130.6	132.1	129.1
% Ch	2.2%	1.6%	1.4%	1.0%	2.2%	0.4%	-0.4%	1.8%	2.2%	1.6%	1.1%	-2.3%
<b>GOODS PRODUCING SECTOR</b>												
Idaho (Thousands)	112.8	113.6	115.7	118.6	112.8	110.9	111.7	116.6	112.8	114.0	115.9	112.9
% Ch	1.4%	0.7%	1.9%	2.5%	1.4%	-1.7%	0.7%	4.4%	1.4%	1.1%	1.6%	-2.6%
U.S. (Millions)	25.2	24.8	24.7	24.6	25.2	24.3	23.4	23.8	25.2	24.8	24.5	23.1
% Ch	-0.5%	-1.6%	-0.6%	-0.1%	-0.5%	-3.5%	-3.7%	1.7%	-0.5%	-1.6%	-1.1%	-5.6%
<b>SERVICE PRODUCING SECTOR</b>												
Idaho (Thousands)	422.9	433.5	443.0	453.6	422.9	432.3	438.5	450.0	422.9	433.1	441.0	446.6
% Ch	3.1%	2.5%	2.2%	2.4%	3.1%	2.2%	1.4%	2.6%	3.1%	2.4%	1.8%	1.3%
U.S. (Millions)	103.4	105.9	107.9	109.3	103.4	104.7	105.1	107.0	103.4	105.8	107.5	105.9
% Ch	2.9%	2.4%	1.9%	1.3%	2.9%	1.3%	0.3%	1.8%	2.9%	2.4%	1.6%	-1.5%
<b>FINANCIAL MARKETS</b>												
Federal Funds Rate	5.0%	5.5%	5.5%	5.5%	5.0%	4.7%	4.2%	4.3%	5.0%	5.3%	6.3%	6.1%
Bank Prime Rate	8.0%	8.5%	8.5%	8.5%	8.0%	7.7%	7.2%	7.3%	8.0%	8.3%	9.3%	9.1%
Mort Rate, New Homes	7.2%	7.7%	7.2%	7.0%	7.2%	7.6%	6.9%	6.9%	7.2%	7.6%	7.5%	8.0%
<b>INFLATION</b>												
GDP Price Deflator	1.3%	1.4%	1.6%	1.8%	1.3%	1.3%	0.7%	0.9%	1.3%	1.6%	2.5%	2.4%
Personal Cons Deflator	1.6%	1.7%	1.7%	2.2%	1.6%	1.5%	1.0%	1.6%	1.6%	2.0%	2.6%	3.0%
Consumer Price Index	2.2%	2.3%	2.1%	2.6%	2.2%	2.1%	1.3%	1.8%	2.2%	2.7%	3.1%	3.3%

Forecast Begins the **THIRD** Quarter of 1999

Goods-producing employment actually declines nearly 2.0% this year and rises less than 1.0% in 2001. Services-producing employment growth tapers down to 2.2% in 2000 and 1.4% in 2001. Total nonfarm employment does post a strong recovery in 2002, but it is not enough to overcome the weaknesses of the previous two years. In 2002, Idaho total nonfarm employment is about 5,600 lower than its baseline counterpart. Idaho real personal income also grows slower in 2000 and 2001. Like employment, it too fails to make up ground lost during 2000 and 2001 despite a relatively strong showing in 2002.

## **LATE-RECESSION SCENARIO**

The *Late-Recession Scenario* has been assigned a 30% probability of occurrence. This scenario is a more typical end-of-expansion recession than the *Stock-Market-Correction Scenario* discussed above. In the *Late-Recession Scenario* the U.S. economy grows stronger in 1999-2000 than in the baseline. The unemployment rate stays low and the U.S. stock market keeps climbing. Both of these factors keep consumer confidence buoyant. As a result, consumer spending continues to boom. In addition to the strong domestic economy, the recovery in Asia causes worldwide demand to strengthen. But this stronger growth comes at the price of higher inflation. Commodity prices recover along with foreign demand. Wage pressures grow as the U.S. labor market is stretched to its limit. Despite the signs of increasing inflation, the Federal Reserve is slow to tighten. This policy mistake proves costly.

The nation's central bank attempts to make up for delayed tightening by raising interest rates sharply. In the fall of 2001 the federal funds rate is at 6.75%. Because of the delayed response to inflation, the recession spirals downward, resulting in a peak-to-trough decline of 2.7%. While this recession would be about average by historical standards, it would be deeper and longer than the recession experienced in the *Stock-Market-Correction Scenario*.

In this scenario, Idaho's economy departs significantly from its baseline counterpart beginning in 2001. Idaho nonfarm employment increases just 1.8% in 2001 and 0.5% in 2002. In the *Baseline Scenario* it advances 2.1% in 2001 and 2.4% in 2002. The goods-producing sector is hit harder than the services-producing sector. The former rises 1.6% in 2001 then declines 2.6% in 2002. The latter grows 1.8% next year and 1.3% in 2002. Idaho real personal income advances 3.5% this year, 3.0% next year, and 1.1% in 2002. In the baseline case, this measure rises 3.8% in 2000, 3.6% in 2001, and 3.3% in 2002.